

The directors submit their report together with the audited accounts for the year ended 31st December 2000.

## PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The Company is an investment holding company. The Company and its subsidiaries (together the “Group”), associated companies and a jointly controlled entity are principally engaged in an integrated range of activities relating to the manufacture, assembly and trading of motor vehicles, the manufacture and trading of automotive equipment and parts in the Mainland China (the “PRC”), and the manufacture and trading of audio equipment in Hong Kong. An analysis of the Group’s turnover and contribution to the Group’s operating profits for the year by principal activity and market is set out in note 2 to the accounts.

## RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated profit and loss account on page 24. The board of directors of the Company (the “Board”) do not recommend the payment of a dividend in respect of the year (1999:Nil).

## BONUS ISSUE

The Board recommends a bonus issue of one new share for every ten existing shares, credited as fully paid, to shareholders whose names appear on the register of members on 28th May 2001. The bonus shares will, when issued, rank *pari passu* in all respects with the existing issued shares of the Company. No fractional shares will be allotted to shareholders but will be aggregated and sold, and the net proceeds will be retained for the benefit of the Company. The bonus issue is conditional upon (a) the approval of shareholders of the necessary resolutions at an extraordinary general meeting to be convened and held after the forthcoming annual general meeting; and (b) the Listing Committee of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) granting the listing of and permission to deal in the bonus shares. Details of the bonus issue will be included in a circular to be despatched to shareholders as soon as possible.

## RESERVES

Movements in the reserves of the Group and the Company during the year are set out in note 21 to the accounts. The Company had no distributable reserves at 31st December 2000, calculated pursuant to section 79B of the Companies Ordinance (1999 : nil).

## FIXED ASSETS

Details of the movements in fixed assets during the year are set out in note 10 to the accounts.

## PRINCIPAL PROPERTIES

Details of the principal properties held for investment purposes are set out on pages 66 and 67.

#### SHARE CAPITAL, WARRANTS AND OPTIONS

Details of movements in the share capital and warrants of the Company during the year are set out in note 20 to the accounts.

Details of the movements of the share options granted by the Company during the year and options outstanding as at 31st December 2000 are set out in note 20 to the accounts.

#### PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

The Company has not redeemed any of its shares during the year. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's listed securities.

#### PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries as at 31st December 2000 are set out in note 33 to the accounts.

#### BANK LOANS, OVERDRAFTS AND OTHER BORROWINGS

Details of bank loans, overdrafts and other borrowings of the Group and of the Company as at 31st December 2000 are set out in note 22 to the accounts.

#### FIVE-YEAR FINANCIAL SUMMARY

The results, assets and liabilities of the Group for the current year and the last four financial years are as follows: –

	2000	1999	1998	1997	1996
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Profit/(loss) attributable to shareholders	<u>453,203</u>	<u>37,867</u>	<u>23,631</u>	<u>31,517</u>	<u>(569,689)</u>
Total assets	<u>2,199,650</u>	<u>1,203,954</u>	<u>1,227,493</u>	<u>846,327</u>	<u>1,305,265</u>
Total liabilities including minority interests	<u>407,073</u>	<u>329,494</u>	<u>957,543</u>	<u>602,346</u>	<u>1,120,813</u>
Shareholders' funds	<u>1,792,577</u>	<u>874,460</u>	<u>269,950</u>	<u>243,981</u>	<u>184,452</u>

## DIRECTORS

The directors who held office during the year and up to the date of this report were: –

Mr. ZHANG Fangyou

Mr. LU Zhifeng – appointed as Vice Chairman on 11th January 2000

Mr. YANG Dadong – appointed on 16th January 2001

Mr. CHEN Xuejun

Mr. ZENG Qinghong – appointed on 16th January 2001

Mr. HU Peizhuo

Mr. DING Baoshan – appointed on 26th October 2000

Mr. CHEUNG Doi Shu\*

Mr. LEE Ka Lun\*

Mr. ZHANG Bohua – resigned on 18th September 2000

Mr. LIANG Ningguang – resigned on 18th September 2000

Mr. XIE Youde – resigned on 18th September 2000

Mr. ZHANG Quan – resigned on 18th September 2000

Mr. WANG Shiming – resigned on 18th September 2000

\* Independent non-executive directors

Messrs, ZHANG Fangyou, LU Zhifeng, YANG Dadong, ZENG Qinghong, HU Peizhuo and DING Baoshan shall retire at the forthcoming Annual General Meeting in accordance with Article 92 or Article 101 of the Company's Articles of Association and, being eligible, offer themselves for re-election.

## DIRECTORS AND SENIOR MANAGEMENT'S PROFILES

Biographical details of the directors of the Company and senior management of the Group are set out as follows: –

### Executive Directors

**Mr. ZHANG Fangyou**, aged 44, is the Chairman and Managing Director of the Company. He joined the Group in 1997. He is also the chairman and managing director of China Lounge Investments Limited (“China Lounge Investments”), chairman of Guangzhou Automobile Group Co., Ltd (“Guangzhou Automobile”) and a director of Guangzhou Honda Automobile Co., Ltd. (“Guangzhou Honda”). Mr. Zhang had held several senior posts in Zeng Cheng City in Guangdong Province and he was the deputy secretary-general of Guangzhou Municipal People's Government (“Guangzhou Government”), the director of Automotive Industry Office of Guangzhou Government. Mr. Zhang was appointed as the Chairman of the Company in 1998.

**Mr. LU Zhifeng**, aged 48, was appointed as the Vice Chairman of the Company on 11th January 2000. He joined the Group in 1998. He is also the managing director of Guangzhou Automobile Group, a director of China Lounge Investments and Guangzhou Honda. Mr. Lu was the general manager of Guangzhou Yangcheng Automobile Group Co., factory manager of Guangzhou Yangcheng Automobile Factory and also vice chairman and general manager of Guangzhou Yangcheng Automobile Co., Ltd.

**DIRECTORS AND SENIOR MANAGEMENT'S PROFILES (cont'd)**

**Executive Directors (cont'd)**

**Mr. YANG Dadong**, aged 52, was appointed as a Director of the Company on 16th January 2001. He joined the Group in 2001. He is also the vice chairman of Guangzhou Automobile Industry Group Co., Ltd. and chairman of Guangzhou Motorcycle Group Co. ("Guangzhou Motorcycle"). Mr. Yang was the vice chairman and general manager of Guangzhou Motorcycle, general manager of Wu Yang-Honda Motors (Guangzhou) Co., Ltd. ("Wu Yang-Honda Motors") and chairman of Guangzhou Wu Yang Group Co., Ltd. ("Guangzhou Wu Yang Group").

**Mr. CHEN Xuejun**, aged 57, is a Director of the Company. He joined the Group in 1999. He is also a director of China Lounge Investments, the deputy managing director of Guangzhou Automobile. He worked for Guangzhou Yangcheng Automobile Group Co. as deputy managing director, and Guangzhou Motorcycle as an executive director and for Wu Yang-Honda Motors as deputy managing director.

**Mr. ZENG Qinghong**, aged 39, was appointed as a Director of the Company on 16th January 2001. He joined the Group in 1999. He is also a director and the deputy general manager of Guangzhou Honda and vice general manager of Guangzhou Automobile. He was the deputy managing director of Guangzhou Guangke Automobile Group Co., Ltd.

**Mr. HU Peizhuo**, aged 57, is the Deputy Managing Director of the Company. He joined the Group in 1994. He is also a director of China Lounge Investments, the chairman of Guangzhou Weida Machinery Enterprises Corporation Limited ("Weida"), a director of Guangzhou Honda Automobile No.1 Sales Co., Ltd. and a director of Guangzhou Denway Bus Co., Ltd ("GZ Denway Bus"). He was the deputy general manager of Guangzhou Power Equipment Complete Set Industrial Corporation and the chairman and general manager of Guangzhou Pegasus Boiler Manufacture Co., Ltd.

**Mr. DING Baoshan**, aged 38, was appointed as a Director of the Company on 26th October 2000. He joined the Group in 2000. Mr. Ding studied in Beijing Technology University (former name: Beijing Metal College), China Social Science Institute, where has gained his bachelor degree, MBA and PHD. He had worked a long period of time in the National Macroeconomics Department in respect of the macroeconomics policy and corporate reform. He is also the chief economist of Guangzhou Automobile Group, a director of China Lounge Investments and managing director of Guangzhou Honda Automobile No.1 Sales Co., Ltd.

**Independent Non-Executive Directors**

**Mr. CHEUNG Doi Shu**, aged 39, is an independent Non-Executive Director of the Company. He joined the Group in 1998. He is a qualified solicitor in the Australian Capital Territory, Hong Kong, Singapore and England and Wales and received his bachelor's and master's degree in law from the University of London. He is a director of GZI Transport Limited and Artfield Group Limited and is the sole practitioner of D.S.Cheung & Co. whose practice includes securities, corporate finance, China investments and international banking and finance and China Convergent Corporation Limited, listed on the Australian Stock Exchange, Nasdaq and the Frankfurt Stock Exchange.

## DIRECTORS AND SENIOR MANAGEMENT'S PROFILES (cont'd)

### Independent Non-Executive Directors (cont'd)

**Mr. LEE Ka Lun**, aged 46, was appointed as an independent Non-Executive Director and Chairman of Audit Committee of the Company on 30th June 1999. He joined the Group in 1999. He is an accountant by profession and is the deputy chief executive of Lloyds TSB Bank Plc, Hong Kong Branch. Mr. Lee is a fellow of the Chartered Association of Certified Accountants in UK and has over 20 years of experience in banking and auditing.

### Senior Management

**Mr. LIU Jinbo**, aged 56, is the Deputy Manager of the Company. He joined the Group in 1998. He is also the deputy general manager of China Lounge Investments and the director of Weida. He had been the general manager of Weida, Mr. Liu was promoted to the present position in 1998.

**Ms. GAO Fusheng**, aged 43, is the Deputy General Manager and the Financial Controller of the Company. She joined the Group in 1999. She is also a director of Guangzhou Honda Automobile No. 1 Sales Co., Ltd. Ms. Gao obtained a master's degree in business administration from Murdoch University in Australia. She was the director of the finance department of the Automotive Industry Office of Guangzhou Government. She was promoted to the present position in 1999.

**Mr. HO Nai Ki**, aged 51, is an assistant to General Manager of the Company and also the General Manager of the Company's investment department. He joined the Group in 1993. Prior to joining the Company in 1993, he had worked for the Chase Manhattan Bank, Sun Hung Kai Group and several leading financial institutions in Hong Kong. Mr. Ho has over 20 years of experience in investment and financial management.

**Mr. LIANG Yaohua**, aged 41, is the General Manager of the Company's finance department. He joined the Group in 1992. Mr. Liang obtained a master's degree in business administration from Murdoch University in Australia. He had been the assistant financial manager of Guangzhou Auto Group Corporation and financial manager of Weida. He was promoted to the present position in 1994.

**Mr. HE Yanhui**, aged 51, is the general manager of Weida. He joined the Group in 1997. He is also the chairman of GZ Denway Bus and Guangzhou Weida Machinery Enterprises Corporation Limited – Automotive Industry Trading Company ("GATC"). He had been the general manager of Guangzhou Peugeot Automobile Co., Ltd. ("Guangzhou Peugeot") and general manager of GZ Denway Bus. Mr. He was promoted to the present position in 1998.

**Mr. FU Jinhai**, aged 37, is deputy managing director of Weida. He joined the Group in 1999. He is also the general manager of GATC. He had been the deputy managing director of Guangzhou Peugeot and deputy managing director of GZ Denway Bus. He was promoted to the present position in 1999.

## DIRECTORS' SERVICE CONTRACTS

There is no service contract, which is not determinable by the Company within one year without payment of compensation (other than statutory compensation), in respect of any director proposed for re-election at the forthcoming Annual General Meeting.

**DIRECTORS' INTERESTS IN CONTRACTS**

No contracts of significance in relation to the Group's business to which the Company, its holding company, its subsidiaries or its fellow subsidiaries was a party, and in which any director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year of 2000.

**DIRECTORS' INTERESTS IN EQUITY SECURITIES**

As at 31st December 2000, the interest of Directors and chief executives in the share and options of the Company and its associated corporations (within the meaning of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance")), as recorded in the register maintained under Section 29 of SDI Ordinance or as notified to the Company were as follows :-

Name	Options			Shares	
	Balance outstanding as at 1st Jan 2000	Number of options exercised during the year	Exercise price per share HK\$	Balance outstanding as at 31st Dec 2000	Number of ordinary shares of the Company held as at 31st Dec 2000
Mr. Zhang Fangyou	2,000,000	–	0.3395 (i)	2,000,000	–
	3,000,000	–	0.3112 (ii)	3,000,000	–
Mr. Lu Zhifeng	2,700,000	–	0.3395 (i)	2,700,000	–
	3,000,000	–	0.3112 (ii)	3,000,000	–
Mr. Hu Peizhuo	2,000,000	–	0.3395 (i)	2,000,000	–
	3,000,000	–	0.3112 (ii)	3,000,000	–
Mr. Xie Youde **	2,000,000	–	0.3395 (i)	N/A	N/A
	1,200,000	1,200,000	0.3112 (ii)	N/A	N/A
Mr. Zhang Quan **	1,200,000	1,200,000	0.3112 (ii)	N/A	N/A
Mr. Zhang Bohua **	360,000	360,000	0.4056 (iii)	N/A	N/A
Mr. Liang Ningguang **	350,000 *	350,000 *	0.4056 (iii)	N/A	N/A
Mr. Wang Shiming **	200,000	200,000	0.4056 (iii)	N/A	N/A

\* This interest included an option to subscribe for 50,000 shares in the Company granted to his spouse.

\*\* All these persons resigned as Directors of the Company on 18th September 2000.

**DIRECTORS' INTERESTS IN SECURITIES (cont'd)**

*Notes:*

- (i) Share options granted on 14th July 1998 under the Share Option Scheme entitling the holders of the share options to subscribe for shares at an adjusted exercise price due to rights issue of HK\$0.3395 per share for a period of three years commencing on the expiry of six months after the date of grant of the share options, and shall expire at the end of the three years' period or 31st January 2003, whichever is earlier. The consideration paid by each Director of the Company for the option granted by the company was HK\$1.
- (ii) Share options granted on 5th March 1999 under the Share Option Scheme entitling the holders of the share options to subscribe for shares at HK\$0.3112 per share for a period of three years commencing on the expiry of six months after the date of grant of the share options, and shall expire at the end of the three years' period or 31st January 2003, whichever is earlier. The consideration paid by each Director of the Company for the option granted by the company was HK\$1.
- (iii) Share options granted on 15th June 1999 under the Share Option Scheme entitling the holders of the share options to subscribe for shares at HK\$0.4056 per share for a period of three years commencing on the expiry of six months after the date of grant of the share options, and shall expire at the end of the three years' period or 31st January 2003, whichever is earlier. The consideration paid by each Director of the Company for the option granted by the company was HK\$1.

Save as disclosed herein, none of the Directors and chief executives of the Company had any interests, as at 31st December 2000, in the equity or debt securities of the Company and its associated corporations (within the meaning of the SDI Ordinance) which were required to be notified to the Company and the Stock Exchange pursuant to Section 28 of the SDI Ordinance (including interest which they were deemed or taken to have under Section 31 or Part I of the Schedule to the SDI Ordinance) or which were required, pursuant to Section 29 of the SDI Ordinance, to be entered in the register referred to therein or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies to be notified to the Company and the Stock Exchange.

Save as disclosed herein, at no time during the year was the Company or its holding companies or any of its subsidiaries or fellow subsidiaries a party to any arrangements to enable the Directors of the Company to acquire benefits by means of acquisition of shares in or debentures of the Company or any other body corporate.

Save as aforesaid, no rights to subscribe for equity or debt securities of the Company have been granted by the Company to, nor have any such rights been exercised by, any directors and chief executives of the Company during the year ended 31st December 2000.

## SUBSTANTIAL SHAREHOLDERS' INTERESTS IN THE SHARE CAPITAL OF THE COMPANY

As at 31st December 2000, those persons or corporations having an interest in 10% or more of the issued share capital of the Company as recorded in the register of substantial shareholders maintained under Section 16(1) of the SDI Ordinance were as follows :

<b>Substantial shareholders</b>	<b>Number of shares held</b>	<b>Notes</b>
Guangzhou Automobile	1,277,069,321	(a)
Guangzhou Jinda Motors Holdings Enterprises ("Jinda")	1,277,069,321	(b)
China Lounge Investments	1,277,069,321	(c)

### *Notes:*

- (a) This interest represents the total number of shares of the Company held by certain subsidiaries of Guangzhou Automobile where Guangzhou Automobile is taken to be interested in such shares under Section 8 of the SDI Ordinance.
- (b) Jinda is a subsidiary of Guangzhou Automobile and their interests in the shares of the Company are duplicated in the interest of Guangzhou Automobile.
- (c) China Lounge Investments is a subsidiary of Jinda and its interest in the shares of the Company are duplicated in the interests of Guangzhou Jinda.

Save as disclosed herein, no other person is recorded in the register of substantial shareholders maintained under Section 16(1) of the SDI Ordinance as having an interest in 10% or more of the issued share capital of the Company.

## RETIREMENT SCHEME

Details of the Group's retirement scheme are set out in note 30 to the accounts.

## INDEPENDENT NON-EXECUTIVE DIRECTORS' FEES

Each of the independent non-executive directors of the Company received HK\$68,000 as director's fee for the year ended 31st December 2000.

## MANAGEMENT CONTRACTS

No contracts, other than contract of service with person engaged in the full-time employment of the Company, concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year of 2000.



## MAJOR SUPPLIERS

The percentage of purchase attributable to the Group's major suppliers is as follows:

	2000	1999
	%	%
– the largest supplier	37	12
– five largest suppliers combined	58	34

No directors, their associates or shareholders (which to the knowledge of the directors own more than 5% of the Company's share capital) were interested at any time in the year in the above suppliers.

## MAJOR CUSTOMERS

During 1999 and 2000, the Group's sold less than 30% of its goods and services to its five largest customers.

## CONNECTED TRANSACTIONS

Details of transactions regarded as connected transactions as defined in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") are as follows:

As at 31st December 2000, Weida, a subsidiary with 95% equity interest owned by the Company, had an aggregate sum of RMB2,116,000 (equivalent to approximately HK\$1,977,000) on current accounts due to the Company. Guangzhou Automobile, the controlling shareholder of the Company, through its subsidiary China Lounge Investments has advanced an amount of RMB1,419,000 (equivalent to approximately HK\$1,326,000) to Weida, of which 5% equity interest is indirectly held by Guangzhou Automobile through its wholly-owned subsidiary Jinda. Both amounts advanced from the Company and China Lounge Investments were provided for the purpose of working capital and were interest-free and repayable on demand but without any security from Weida.

During the year, Weida, a subsidiary with 95% equity interest owned by the Company, provided certain one-year bank guarantees to the total extent of RMB21,000,000 (equivalent to approximately HK\$19,626,000) for GZ Denway Bus, another subsidiary with 95% equity interest owned by the Company, to enable GZ Denway Bus to obtain banking facilities. Guangzhou Automobile, which through Jinda owns 5% equity interest in both Weida and GZ Denway Bus respectively, has also provided a bank guarantee to the extent of RMB50,000,000 (equivalent to approximately HK\$46,729,000) for GZ Denway Bus. Both aforesaid guarantees were provided without obtaining any security from GZ Denway Bus.

CONNECTED TRANSACTIONS (cont'd)

Further, Guangzhou Automobile, which through Jinda owns 5% equity interest in GZ Denway Bus, has through its subsidiaries, Guangzhou Automotive Manufacturing Factory, provided to GZ Denway Bus three interest-free one-year short term advances in the aggregate sum of RMB38,061,000 (equivalent to approximately HK\$35,571,000) during the year and a loan repayable on demand in the sum of RMB39,130,000 (equivalent to approximately HK\$36,570,000) bearing normal commercial interest at the rate of 6.456% per annum in the PRC without obtaining any security from GZ Denway Bus. However, the Company or the Group has not correspondingly provided any advances in accordance with the equity interest owned in GZ Denway Bus.

Weida, a subsidiary with 95% equity interest owned by the Company, has provided two bank guarantees to the total extent of RMB67,500,000 (equivalent to approximately HK\$63,084,000) for GATC, another subsidiary with 95% equity interest owned by the Company, to enable GATC to obtain certain banking facilities. Besides, Weida has provided certain loans in the aggregate sum of RMB13,735,000 (equivalent to approximately HK\$12,836,000) to GATC of which RMB8,735,000 (equivalent to approximately HK\$8,164,000) being interest-free and RMB5,000,000 (equivalent to approximately HK\$4,672,000) bearing an interest rate of 5.76% per annum. Guangzhou Automobile, which through Jinda owns 5% equity interest in both Weida and GATC respectively, has provided a bank guarantee to the extent of RMB2,500,000 (equivalent to approximately HK\$2,336,000) for GATC without obtaining any security from GATC. Guangzhou Automobile has also through its subsidiary China Lounge Investments advanced an interest-free one-year short term loan in the sum of RMB3,000,000 (equivalent to approximately HK\$2,804,000) to GATC. Both China Lounge Investments' loans and Jinda's loan were repayable within one year from the respective dates of advancement.

The Company has provided a 90-day letter of credit facilities in the sum of US\$567,000 (equivalent to approximately HK\$4,422,600) to Classic Tech Development Limited ("Classic Tech"), a company indirectly owned as to approximately 63.47% by the Company, to enable Classic Tech to pay its supplier. The Company has charged Classic Tech a fee of HK\$66,000 for the provision of such letter of credit facilities. Richyear Industrial Limited, which is an independent third party and indirectly owns approximately 36.53% interest in Classic Tech, has not provided any financial assistance to Classic Tech in this respect.

Further to the announcement dated on 31st August 2000 and the Company's circular to shareholders dated 21st September 2000, the Company would like to report the current status of the connected transactions concerned as follows:

1. The funds advanced by the Company to GZ Denway Bus was fully settled and repaid to the Company in December 2000.
2. Classic Tech has repaid HK\$3,700,000, being part of the loan due by it to the Company and the current outstanding balance is HK\$6,546,989 only.
3. The indebtedness owing by Guangzhou Instruments and Meters Industrial Corporation to Guangzhou Arkon Industrial Company Limited was settled and repaid in full in January 2001.